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SUBJECT: JAPANESE MORNING PRESS HIGHLIGHTS 07/30/07-2

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- 11) PNP gains seat in Shimane; Tanaka of NPN elected

The People's New Party (PNP) actively fielded candidates, but maintained only two seats up for election. A sense of disappointment is permeating the party. It gained only one seat in the proportional representation segment, but it won in the Shimane constituency due to cooperation with the Democratic Party of Japan (DPJ).

Regarding the LDP's devastating defeat in single-seat constituencies, party head Tamisuke Watanuki told reporters early today: "There was a considerable backlash in local districts. The result shows a backlash to the fact that competition principles in the market have given rise to major confusion." Concerning the party's future approach, he said, "We will seriously take the election cooperation with the DPJ. We want to indicate understanding toward the DPJ's political trend." However, some party members take the view that the PNP should search for ways to cooperate with the ruling parties regarding approaches to such issues as individual bills."

Yasuo Tanaka, head of the New Party Nippon (NPN), was elected, backed by his high name recognition. Asked about to which political group he will join, Tanaka said, "I have not given a thought to that yet."

12) Secretary general of LDP members in Upper House loses election; LDP candidate running from Aoki's home constituency also defeated

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In election districts, the strongholds of Liberal Democratic Party (LDP) senior officials in the Upper House were greatly shaken. Toranosuke Katayama, secretary general of Liberal Democratic Party (LDP) members in the House of Councillors, running from Okayama, a high-profile election district, was defeated by Yumiko Himei, new candidate running on the Democratic Party of Japan's (DPJ) ticket. Commenting on his defeat, Katayama said, "There was a major setback. The defeat is entirely due to lack of insight and virtue on my part."

Mikio Aoki, head of the LDP caucus in the Upper House, who is dubbed the kingmaker of the Upper House, said during an NHK program, "I never expected that Mr. Katayama would lose the election." Incumbent Shuntaro Kageyama, who was running on the LDP's ticket in Shimane, Aoki's home constituency, was also defeated by Akiko Kamei, a new candidate of the People's New Party (PNP).

As symbolized by defeats in Okayama and Shimane, which had been regarded as its impregnable strongholds, LDP candidates' defeats in single-seat constituencies dealt a severe blow to the party.

All LDP candidates were defeated by candidates who either ran on the LDP's ticket or were recommended by it in all four prefectures in the Shikoku region. In six prefectures in the Tohoku region, LDP candidates also fell behind candidates either running on the DPJ's tickets or independent candidates with opposition-party affiliation in four single-seat constituencies, with the exceptions of the two-seat Miyagi constituency and the single-seat Fukushima constituency. In Iwate Prefecture, DPJ head Ozawa's home constituency, a DPJ candidate was elected in the Lower House Iwate No. 1 Constituency by-election held the same day.

The LDP also failed in Saga, Nagasaki and Miyazaki in Kyushu region. In Okinawa, incumbent Keiko Itokazu with no party affiliation, recommended jointly by the DPJ, the Japanese Communist Party (JCP), the Social Democratic Party and the People's New Party (PNP) defeated Junshiro Nishime running on the LDP's ticket. The joint struggle among opposition parties at last came to fruition, after defeats in the gubernatorial election and the Upper House by-election since last fall.

The LDP also suffered a severe setback in the Hokuriku region, the LDP's stronghold. Tomiro Yata, a new candidate fielded by the LDP was defeated by Yasuo Ichikawa, former Lower House member fielded by the DPJ, in Ishikawa, former Prime Minister Yoshiro Mori's home constituency. Kotaro Nogami, a former LDP Diet member, was defeated by Takashi Morita, an independent new candidate with no party affiliation, in Toyama as well.

13) More than 10 million absentee votes prior to election day;
Turnout rate on election day was 58.64%

MAINICHI (Page 2) (Full)
July 30, 2007

The voter turnout for the 21st House of Councillors election conducted Sunday was 58.64% across the nation, according to counting by the Mainichi Shimbun. Although such issues as the pension-records fiasco and political money scandals that voters have strong interest were surfaced as campaign issues, there was only a 2.07 percentage point increase from the 56.57% turnout rate in the 2004 Upper House election, resulting in the 6th lowest-turnout

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in the postwar period. Meantime, the number of people who cast absentee ballots taking advantage of the early voting system was up 50.58% from the previous race to 10,798,996, the largest number since the system was introduced in 2003.

By prefecture, the highest turnout was 71.81% of Shimane Prefecture, followed by 67.70% of Akita, 67.67% of Tottori. The turnout this time around increased in 39 prefectures. In Toyama, the turnout increased by 7.34 points to 64.96%.

Aomori Prefecture marked the lowest turnout of 53.88%, followed by 54% of Ibaraki and 54.6 of Gunma. Turnout in Miyazaki was decreased by 5.35 points, the largest drop. Turnout in Gunma and Oita (63.04%) was the second lowest in the 21 Upper House elections. One of the reasons for the low turnout this time around is that 2007 is the year of the boar in the 12-year cycle of the Chinese zodiac, when the Upper House election and unified local election take place simultaneously once in 12 years.

The early voting system has conducted three times -- the 2004 Upper House poll, the 2005 House of Representatives election, and the 2007 Upper House race. In Sunday's election, the number of voters cast ballots through the early voting system exceeded the 8,962,911 of the 2005 Lower House election, which attributed to 10.33% of the all voters.

The number of voters took advantage of the early voting system increased from the previous election across the country, including Yamagata and Akita which experienced a 90% or more increase.

14) DPJ wins back unaffiliated voters in urban areas, reversing results of "postal election"

YOMIURI (Page 6) (Excerpts)
July 30, 2007

Exit polls showed that 51% of swing voters cast ballots for the major opposition Democratic Party of Japan in the proportional representation segment in Sunday's House of Councillors election. The Liberal Democratic Party won big in the 2005 House of Representatives election, when the privatization of postal services was the major campaign issue. In this year's election, the DPJ achieved an overwhelming victory by winning back unaffiliated voters.

Asked which party or candidates they voted for in the proportional-representation segment, 51% of unaffiliated voters said they voted for the DPJ and 14% for the Liberal Democratic Party, a difference of 37 points. The DPJ's performance was especially strong in urban areas, such as Kanagawa and Chiba, led by Iwate's 65%.

The DPJ also made gains in the 2004 Upper House election, garnering

51% of unaffiliated votes. The DPJ's recovery of unaffiliated votes shows that the party is now firmly established as a receptacle for votes critical of the ruling coalition.

15) Exit Poll: Distrust over the pension issue leads to increased DPJ support

YOMIURI (Page 6) (Full)
July 30, 2007

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The results of a joint exit poll conducted yesterday by the Yomiuri Shimbun and the Nippon Television Network (NTV) show that during this Upper House election, 50% of those who said they "cannot trust the current pension system" voted for the Democratic Party of Japan (DPJ, or Minshuto), far surpassing the 10% who voted for the Liberal Democratic Party (LDP). It seems that the DPJ was able to obtain the support of voters distrustful towards pensions.

When asked what they thought about Japan's pension system, 10% of respondents said that they "can trust" the system whereas over 60% said they "cannot trust" the system ("No response" answers were not included). These numbers show that a large number of voters are worried and distrustful regarding pensions.

Looking at the voting patterns of those distrustful of the pension system, 52% voted for the DPJ in the proportional-representation segment, and 53% voted for the DPJ in the electoral districts. In comparison, 14% voted for the LDP in the proportional-representation segment and 15% voted for the LDP in the electoral districts. It seems that voters approved of the DPJ's pursuit of the pension issue during Diet debates and handed a harsh sentence to the LDP, which had held power for many years.

Looking at the breakdown by age group of those distrustful of the pension system, 13% of those in their 50s voted for the LDP and 54% voted for the DPJ, a 41 point gap. Among those in their 30s and 40s and those over the age of 60, there was also a large gap (37 to 40 points) between the percentage of those who voted for the DPJ and those who voted for the LDP.

Meanwhile, looking at the voting patterns of those who said they "can trust" the pension system, 50% voted for the LDP in the proportional-representation segment and 19% voted for the DPJ. Among this group, the LDP has a 31 point lead over the DPJ, a completely opposite result from the other group.

Furthermore, when asked what issue they placed the most focus on when voting, the respondents' number one response was "pensions," followed by the economy, social disparity, politics and money scandals, and education. It seems then that pensions had a huge effect on how people cast their votes.

Among those who placed the most emphasis on pensions, 43% voted for the DPJ in the proportional-representation segment as compared to the 24% who voted for the LDP, giving the DPJ a 19 point lead. The strength of the "pension head wind" is evident from these numbers.

16) Exit poll shows 25% of LDP supporters voted for the DPJ

YOMIURI (Page 2) (Abridged)
July 30, 2007

In a joint exit poll conducted yesterday by the Yomiuri Shimbun and the Nippon Television Network (NTV), it was discovered that the LDP was unable to maintain its own support base.

Among those polled, 37% said that they usually support the LDP, an increase of 1 point from the last Upper House election in 2004. However, of these LDP supporters, 56% voted for the LDP or for an LDP candidate in the proportional-representation segment of this

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election, a 4% decrease.

Instead of voting for the LDP, 25% voted for the Democratic Party of Japan (Minshuto) or its candidates, a 5% increase from the last election. Support also went to the New Komeito (5%), the Japanese Communist Party, the Social Democratic Party, New Party Nippon, and the People's New Party (each 1 to 2%), bringing total support for other parties to 37%.

Even in traditional LDP strongholds, the percentage of LDP supporters voting for the LDP decreased. In Nagasaki Prefecture, where the highest percentage of LDP supporters voted for the LDP in the last election (69%), support decreased to 61% during this election. Even in Shimane Prefecture, the home territory of Diet member Mikio Aoki, support decreased from 64% to 60%. Out of 25 electoral districts, districts where over 60% of LDP supporters voted for the LDP decreased to 9 overall. In Miyagi, Yamagata, Hiroshima, and Okinawa Prefectures, support was less than 50%. In Nagano, Niigata, and Yamanashi Prefectures, almost 30% voted for Minshuto instead of the LDP.

Judging from these results, it seems that after the pension fiasco and the numerous scandals involving cabinet members, those who had supported the LDP until now withheld their votes as a form of punishment.

17) Asahi exit poll shows clearly a lack of voter confidence in Abe, with 56% wanting him to resign; Even 30% of LDP supporters want prime minister to step down

ASAHI (Page 5) (Excerpts)
July 30, 2007

An exit poll carried out by this newspaper for the Upper House election found that even 30% of the supporters of the ruling Liberal Democratic Party (LDP) are calling for Prime Minister Abe to resign his post. Although there was high hopes for Prime Minister Abe as "the face of the election," 70% of the unaffiliated voters and over 50% of all voters who responded to the exit poll expressed their lack of confidence in him in this way. In addition, over 50% of the voters polled replied that they had voted for the Democratic Party of Japan (DPJ or Minshuto) influenced by the pension issue. Less than 20% said they had voted for the LDP, so it appears that the pension issue was the driving force for the DPJ's leap forward.

In the exit poll, the question was asked, "Do you want Prime Minister Abe to continue?" Those who replied that they wanted him to stay in office totaled only 32%, while those who wanted him to be replaced by another prime minister reached 56%.

18) Moves to urge Prime Minister Abe to step down may start

SANKEI (Page 3) (Excerpts)
July 30, 2007

"I did not imagine that we would suffer a major setback," said Mikio Aoki, chairman of the ruling Liberal Democratic Party's caucus in the House of Councillors. Aoki's comment described how greatly the results of Sunday's Upper House election had rocked the LDP. Although Prime Minister Shinzo Abe, president of the LDP, expressed his intention last night to stay in office, his management of his

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administration will inevitably be difficult. Although the factions in the LDP said they are willing to allow him to remain in the LDP presidential post in the interest of party unity, a mood in the party is already growing for Abe to step down, depending on trends in public opinion.

Last night, Aoki said he would resign as chairman of the LDP Upper House caucus, noting, "I have prepared myself (for taking responsibility for the setback). If the prime minister is willing to remain in office, I will accept it." General Council Chairman Yuya Niwa took a position of supporting Abe's intention to remain in

office, noting, "The defeat is a great loss for the Abe administration, but I want the prime minister to hang in there, and not quit his job."

Expecting that the LDP would be defeated in the election, the LDP leadership took precautions against possible calls in the LDP for Abe to step down after the election. Secretary General Hidenao Nakagawa, who is responsible for elections, discussed last evening with former Prime Minister Yoshiro Mori about the future course of his action. At that time Nakagawa made up his mind to resign as secretary general. He then said that Abe should shuffle his cabinet

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and the lineup of the LDP executives.

However, Koichi Kato, former LDP secretary general, who has been critical of Abe, expressed his view opposing Abe's staying in office, arguing, "I fear that if the prime minister remains in his current post, neglecting the feelings of the voters, both he and the party will be hurt." Yoichi Masuzoe, chairman of the LDP Upper House Policy Research Council Chairman, citing gaffes by cabinet ministers as a reason, said, "People had great doubts about the Abe cabinet. I thought that we would lose the election." He was referring to Abe's responsibility for the election results.

Early yesterday afternoon when a prediction that the LDP would suffer a major defeat, senior members of the faction led by former Finance Minister Sadakazu Tanigaki assembled in a Tokyo hotel. Reportedly the participants agreed that a unanimous cabinet arrangement should be formed under the leadership of Tanigaki or former Chief Cabinet Secretary Yasuo Fukuda.

However, the heads of factions, including Tanigaki, who have shied away from the Abe administration, last night stressed the need for unanimity in the party in order for Abe to stay in power.

19) Big barrier may stand in way of government and ruling bloc's plan to extend antiterrorism legislation, tax reform

YOMIURI (Page 7) (Excerpts)
July 30, 2007

Now that the ruling bloc suffered a crushing defeat in Sunday's House of Councillors election, the government's priority legislation and reform debate are expected to stall. A big barrier now stands in the way of Prime Minister Shinzo Abe's goals of creating a beautiful country and breaking away from the postwar regime.

The extension of the Antiterrorism Special Measures Law, scheduled to expire on November 1, is a pressing issue for the government and ruling bloc. The Maritime Self-Defense Force's refueling activities in the Indian Ocean has been playing an important role in the solid Japan-US alliance. Some in the major opposition Democratic Party of

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Japan hold high regards for the MSDF's activities. However, in the event the Diet failed to approve the law's extension due to the DPJ's strong resistance following a reversal of the standings between the ruling and opposition parties in the Upper House as a result of yesterday's election, that could be a serious blow to the Japan-US alliance.

The election results are likely to have an impact on the Hokkaido Toyako Summit 2008, which Japan will chair, as well. Although the government intends to take the initiative in international efforts to create a post-Kyoto Protocol framework to fight global warming, a senior Foreign Ministry official said: "When a country's domestic policies become instable, the country's is underestimated by others and its bargaining ability becomes weaken on the diplomatic front." Japan's overall diplomacy, including the North Korean nuclear and abduction issue, might come to a standstill, as well.

On the economic and fiscal front, turbulence is expected in the tax reform argument for raising the government's contribution to the basic pension scheme to half in fiscal 2009. The government plans to submit to the Diet a bill to raise the consumption tax rate in 2008.

The prime minister, however, indicated in the election campaigning that the government might not hike the consumption tax due to an increase in tax revenues resulting from economic growth. The prime minister might be pressed for dissolving the House of Representatives for a snap general election. Given the situation, cautious views about raising the consumption tax rate may grow stronger for the sake of the next election.

20) Prime Minister Abe still adheres to revising the Constitution:
"The nation understands our basic policy"

ASAHI (Page 3) (Excerpts)
July 30, 2007

Appearing on TV programs late yesterday, Prime Minister Shinzo Abe said, "I'm responsible for this crushing defeat," but he emphasized at the same time, "The nation has understood our basic policy." These remarks gave a glimpse of his feelings that his ruling Liberal Democratic Party (LDP) suffered a crushing defeat principally because of a series of scandals involving cabinet members as well as the pension issue, but that the nation did not necessarily say no to his own ideas.

In the last September LDP presidential election, Abe came up with two policy goals: "breakaway from the postwar regime" and "turning Japan into a beautiful country." What underlies these ideas is "rebuild postwar conservatism."

However, Abe's these policy ideas obviously lost their luster in the election campaign this time. In speaking to voters, Abe desperately emphasized the recent passage of a national referendum bill, a necessary element for constitutional revision, and other achievements, but he was eventually unable to turn around an adverse wind from the pension fiasco and a series of scandals involving his cabinet members.

Despite this massive defeat, Abe declared he would stay on. The reason is presumably because he would think that if he steps down at this point in time after he somehow managed to enact the national referendum bill into law, he will come to give up halfway preparing a process for constitutional revision. Also, he may think that if he

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steps down now, a council of experts established to discuss the question of the right to collective self-defense may delay presenting a conclusion, though it plans to come up with a conclusion in September.

Furthermore, Abe is to host the Group of Eight (G-8) summit conference in Lake Toya, Hokkaido, in next July. In line with Japan's own measures against climate change, which he unveiled in May and which involves major emitters like the United States, China, and India of greenhouse gases, Abe wants to play a leading part in creating a new international framework.

Considering such an attitude of the prime minister, most of his aides had insisted that the blame lay with some cabinet members (who caused scandals and repeated gaffes), and that the prime minister himself did not make a blunder. Many aides had stressed that regardless of the election results, the prime minister should stay on.

Obviously, voters cast doubts on Abe through the Upper House election this time for his ability to hold the reins of government. Even if he stays on, things will not necessarily go as he expects.

21) Economic circles perplexed by ruling bloc's crushing defeat

YOMIURI (Page 7) (Full)
July 30, 2007

Business circles are shocked by the ruling bloc's major setback in Sunday's House of Councillors election.

Japan Association of Corporate Executives representative secretary Masamitsu Sakurai took this view:

"The outcome is regrettable for a group which has been supporting the Abe administration's reform course. It is a manifestation of public criticism of the pension fiasco and the question of politics and money. There are mounting vital challenges, such as a fundamental reform of the tax system and building a sustainable social security system. We fear that instability in the political situation might roll back reform efforts and the Japanese economy would stall again as a result. We would like to see both the ruling and opposition camps to affirm the basic thinking that there will be no growth without reform."

Japan Chamber of Commerce and Industry President Nobuo Yamaguchi noted:

"The public do not want to see national politics stand still. We would like to see lawmakers run the administration in a way to give consideration to local economies and small businesses while making maintaining sustainable economic growth."

SCHIEFFER